



HENDERSON LOGGIE

Grampian Joint Police Board

**Report to Members and the
Controller of Audit**

2005/2006

External Audit Report No: 2006/06

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Contents

	Page		Page
1. Executive Summary	1	Appendix I Respective Responsibilities	10
2. Introduction	2	Appendix II Follow-up Action Plan for 2004/2005	11
3. Financial	3-5		
4. Governance	6-7		
5. Performance	8-9		



Executive Summary

1.1 Financial

1.1.1 In terms of the Local Government Scotland Act 1973, we have submitted a certified copy of the Grampian Joint Police Board's Annual Statement of Accounts. The 2005/2006 financial statements have been completed within the timescale advised by Audit Scotland and our overall conclusion is that the financial stewardship of the Board was of a satisfactory standard.

- ❑ The financial statements present fairly the state of affairs of the Board as at 31 March 2006 and our audit opinion was unqualified.
- ❑ Appropriate disclosures have been made by the Treasurer in the Statement on the System of Internal Financial Control (SSIFC). The content of the statement was consistent with information arising from our audit work and accordingly our opinion was unqualified.

1.1.2 In compliance with Statement of Auditing Standard 610 (SAS610) on 18 September 2006 we issued to those charged with governance, the Board's Audit Committee, our audit report no. 2006/13, Report to those charged with Governance on the Audit of Grampian Joint Police Board. The report provides audit comment on the key issues and audit opinion arising from the audit of the financial statements and of the Board's system of internal control.

1.1.3 We are pleased to report that there are no recommendations or action plan arising from this year's audit and that all of our recommendations from the previous year have been implemented (see Appendix 2).

1.2 Governance

1.2.1 Members of the Board and the Stewardship Sub-Committee are drawn from the three constituent authorities. The Board is responsible for a number of key aspects including budget setting, appointment of chief officers and scrutiny and challenge of Force performance.

1.2.2 Officers provide the Board and the Stewardship Sub-Committee with reports and statistical data to enable Members to make informed decisions and to raise challenges where appropriate.

1.3 Performance

1.3.1 Strategic planning is set out in the Force's three-year plan "Platform for Success". Under the leadership of the Force Executive the Business Area Management Teams are involved in on-going performance management.

1.3.2 An HMIC primary inspection of Grampian Police was undertaken during 2005/2006 and a report was presented to the Board meeting on 20 October 2006. The overview of the report is that Grampian Police provides a high level of service to the people in the areas it serves and that the Force is assessed as being efficient and effective.

1.3.3 The report identified 16 recommendations in which enhancements can be made to service delivery and also noted 12 examples of good practice (most if not all of which are transferable to other Forces or police organisations).



Introduction

2.1 Introduction

- 2.1.1 We are pleased to submit our second annual report covering significant matters arising during the course of our audit of Grampian Joint Police Board (the Board) for the year ended 31 March 2006.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our long term Strategic Plan. The audit scope and the respective responsibilities of Board members and auditors are set out in Appendix I to this report.
- 2.1.3 Broadly the scope of our audit was to:
- provide an opinion on the financial statements and in accordance with the standards and guidance issued by the Auditing Practices Board;
 - review and report on the Board's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Board's financial position;
 - review and report on the Board's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value; and
 - review and report on whether the Board has made adequate arrangements for collecting, recording and publishing prescribed performance information.
- 2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Board.

2.2 Basis of Information

- 2.2.1 External auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.
- 2.2.2 We have issued a number of reports incorporating action plans for 2005/2006. Some of the main points from those reports are summarised in this report.
- 2.2.3 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Board. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.3 Acknowledgement

- 2.3.1 Our audit for this year and the previous year has brought us in contact with a wide range of staff within the Force. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our duties.



3.1 Audit Completion

- 3.1.1 The target date for submission of the 2005/2006 audited accounts of the Board was 30 September 2006. We are pleased to report that the target date for the audit completion and certification of the annual accounts was met.

3.2 Accounts Certification

- 3.2.1 On 18 September 2006 we issued our audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2006. We set out below a summary of the audit certification issues:

- ❑ The financial statements present fairly the Board's financial position at 31 March 2006 and income and expenditure during the year.
- ❑ We were not obliged to make any adverse comment on the Board's Statement on the System of Internal Financial Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

3.3 Financial Position

- 3.3.1 The Board's net revenue expenditure of £93.39 million exceeded the income from government grants and constituent authorities' contributions, resulting in a deficit for the year of £0.76 million.

3.4 Financial Performance

- 3.4.1 Financial performance in one sense can be measured against the financial budget set by the Board in January 2005 for 2005/2006. In this regard the Board's Revenue Account shows a small underspend for the financial year of £50,000, comparing the deficit of £0.76 million against a budgeted deficit of £0.81 million.
- 3.4.2 This outcome was achieved through close monitoring by both the Finance team and the Budget Holders throughout the year.

3.5 Pensions

- 3.5.1 Accounting for the costs of pensions presents a difficult challenge for the Board. The amounts involved are large; the timescales long, the estimation process is complex and involves many areas of uncertainty that are subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.
- 3.5.2 The Board accounts for two defined benefit pension schemes; the Local Government Superannuation Scheme administered by Aberdeen City Council and the Uniformed Police Services Scheme. The Board's estimated pension liabilities at 31 March 2006 exceeded its share of assets in both schemes.

3.5 Pensions (Cont'd)

Table 1 – Pension liabilities

Estimated pension liabilities	2005/2006	2004/2005	Movement
Pension Scheme	£m	£m	£m
Local Government	16.04	10.08	5.96
Police	541.86	536.25	5.61
Pension liabilities at			
31 March 2006	557.90	546.33	11.57

3.5.3 The Uniformed Police Officers Pension Scheme is administered by the Board under the relevant pension regulations and is an unfunded scheme in that there are no assets. The liabilities for the scheme represent the best estimate of the Board's future commitments to pay retirement benefits to existing pensioners and serving officers who will become pensioners in due course. The Actuary provided the valuations using similar financial assumptions to those used for the Local Government Scheme.

3.5.4 The full actuarial valuation of the Aberdeen City Council Superannuation Scheme was carried out as at 31 March 2005. This highlighted a deficit of £243.4 million representing a funding level of 84% and requiring an average increased employer contribution rate of 233% of employee contributions. The report recommended the following increased rates in the employers' contributions for the next 3 years as follows; 275% in 2006/2007 rising to 300% in 2008/2009.

3.5.5 The increased pension liability has resulted in a negative net assets position in the Board's Balance Sheet. This is normally seen as an indicator of a body's inability to continue as a going concern however, as per Practice Note 10 'Audit of financial statements of Public Sector Entities in the United Kingdom' issued by the Auditing Practices Board (APB), it is not uncommon for public sector bodies to have an excess of liabilities over assets and in these circumstances, auditors should consider the circumstances in which a body may cease to continue in operational existence. Given that FRS17 is concerned only with pensions accounting and does not, in itself, impact on the cash-flows or funding of the Board, the going concern basis is considered appropriate.

3.5.6 We are aware that the issue of future funding of Police Officers' pensions is being addressed at a national level.

3.6 Reserves and Balances

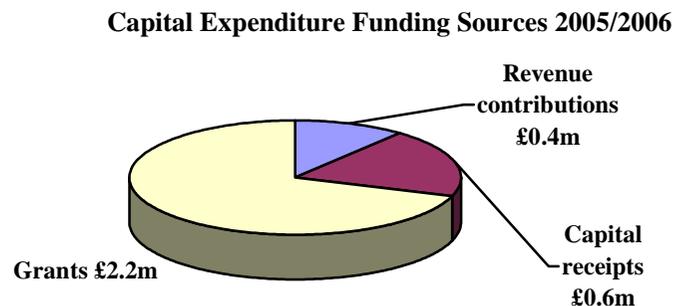
3.6.1 All Boards hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2006 the General Reserve held by the Board totalled £4.24 million. The balance has reduced by £0.76 million in 2005/2006 as a result of the deficit for the year.

3.6.2 An amount of £2.66 million has been earmarked against the General Reserve for pension commutations for those officers eligible to retire on or before 31 March 2006 who have continued in post.

3.6.3 The remaining element of the General Reserve which has not been earmarked amounts to £1.58 million. This is well within the 5% maximum statutory threshold and the 1% minimum limit recently set by the Board.

3.7 Capital Expenditure

- 3.7.1 Capital expenditure is determined by the Board, based on the specific Scottish Executive (SE) grant, capital receipts and Prudential borrowing, if required. The total available funding for the capital programme was £5.2 million, made up of the SE grant and capital receipts of £2.6 million which included receipts brought forward from the previous year of £2.2 million and a small contribution from revenue (CFCR) of £0.4 million. Unspent capital receipts of £2 million are available to help fund capital expenditure in 2006/ 2007. No borrowing was required.
- 3.7.2 Gross capital expenditure for the year amounted to £3.2 million. Funding for the capital expenditure was made up as follows:



3.8 Capital Accounting

- 3.8.1 The main movements on Fixed Assets were additions of £3.1 million on tangible assets which included £1.8 million on plant and equipment, £0.9 million on replacement vehicles and £0.1 million on a software licence that is accounted for as an intangible asset. Details of movements on Fixed Assets and Capital Accounting entries are disclosed in the accounts.
- 3.8.2 We were satisfied with the Board's capital accounting arrangements for 2005/2006 and that the entries for additions and disposals were not misstated.

3.9 SAS610 Report

- 3.9.1 Due to the timing of our audit concluding and the Stewardship Sub-Committee timetable it was not possible to present our "Report to those charged with Governance on the Audit of Grampian Joint Police Board" (SAS610 Report) to the committee and meet the certification deadline. We held a meeting with the Vice Convenor; Councillor M. Greig on the 18 September 2006 at which the audit issues in our SAS610 Report were discussed and changes to the draft accounts were agreed. Our audit opinion was signed the same day.
- 3.9.2 Our SAS610 Report will be presented to the next Stewardship Sub-Committee on 27 November 2006 along with the audited accounts and this report.

4.1 General

- 4.1.1 The Board and the Stewardship Sub-Committee met regularly during 2005/2006 and both comprised members from the constituent local authorities. The Board is responsible for a number of key aspects including budget setting, appointment of chief officers and scrutiny and challenge of Force performance. We have observed the operation of the committees during the year. Members generally understand the issues they are considering and officers are held to account for implementation of recommended improvements to internal control systems. The Force Executive encourages Members to be challenging in their consideration of reports submitted to both the Board and the Stewardship Sub-Committee.
- 4.1.2 The Board has produced a further draft Corporate Governance Code which is currently being updated to reflect the recent CIPFA good practice guidance. This will be completed during 2006/2007 and will be subject to audit review in due course.
- 4.1.3 Our review of the purchasing and creditors payments system found that the controls in place for purchasing, ordering and invoicing are satisfactory. The Board's regulations and procedures were found to be out of date and require to be updated to reflect current working practices. The financial regulations are in the process of being reviewed and developed with a draft recently being presented to the Stewardship Sub-Committee.
- 4.1.4 Our follow-up of the 2004/2005 reviews covering Data Protection and Budgetary Control found that the Board had reacted positively and had taken action to implement all of the recommendations made.

- 4.1.5 Separate management reports detailing the above reviews have been issued and discussed with senior management and considered by the Stewardship Sub-Committee. Actions plans to address issues raised have been agreed as necessary.

4.2 Councillor Information

- 4.2.1 Budget monitoring information is routinely presented to the Board. Other reports to committee are made in a standard format that includes financial implications of any decision that will be made and generally make it clear what members are asked to do in terms of noting or decision making.
- 4.2.2 Officers submit performance information to each cycle of meetings and a commentary is provided so that Members can focus on key data and trends. With the implementation of this more detailed reporting senior officers are more able to engage with Members as to performance outcomes and this makes disclosure more open and accountable.

4.3 Audit Committees - Effectiveness

4.3.1 The Stewardship Sub-Committee has continued to function well, considering outcomes from both internal and external audit work and information from other sources. As with meetings of the Board, management are providing more detailed information to the Stewardship Sub-Committee on matters such as Best Value reviews and other performance issues. This more detailed reporting is designed to generate discussion with Members and to increase their involvement in the development of reviews.

4.4 Reliance on Internal Audit

4.4.1 To minimise audit duplication we liaise with Internal Audit during our planning to identify areas of their work that we can place reliance on. For 2005/2006 we agreed to place reliance on work covering the review of the Board's Payroll system. Following review of the files relating to this report, we concluded that we could place reliance on the work and findings of internal audit.

4.4.2 During 2005/2006, the Board's Internal Audit arrangements were provided by the Internal Audit section of Aberdeen City Council through a Service Level Agreement which was extended to 31 March 2006. At the Stewardship Sub-Committee on 12 June 2006 it was agreed that the provision of Internal Audit services for the period 2006/2007 to 2008/2009 should be subjected to market testing.

4.5 National Fraud Initiative

4.5.1 The National Fraud Initiative (NFI) in Scotland is Audit Scotland's data matching exercise that runs every two years in line with the Audit Commission's NFI timetable. The NFI is designed to help participating bodies to identify possible cases of fraud and detect and correct any consequential overpayments from the public purse.

4.5.2 Audit Scotland's report on NFI 2004/2005, published in May 2006, highlighted the main issues arising in Scotland and noted that fraud overpayments and savings totalling £15.1 million had been found from the exercise. As there were no frauds identified in the Board's cases the figure includes £nil identified by Grampian Police.

4.5.3 Data for NFI 2006/2007 is due to be submitted for processing by October 2006 and we can confirm that the Board is on track to meet this deadline. The mandatory dataset for Grampian Police for 2006/2007 is payroll, including pensions payroll. New data matching areas, outside the core mandatory elements of NFI, have also been included for 2006/2007 covering creditors' payment history and standing data.

Performance

5.1 Strategic Planning

- 5.1.1 Strategic planning is undertaken through the Force's three year plan 'Platform for Success' which links the Strategic Plans for each of the eight business areas to the Department/ Business Unit Annual Delivery Plans. This was reviewed during 2005/2006 and progress against the objectives is subject to regular reporting to the Board and the Force Executive Board.
- 5.1.2 Budget Holders are asked to prepare annual Business Plans for their areas which include the budget requirements in line with the work priorities and objectives. As part of this process, each area is asked to detail any plans for efficiency gains, reviews or saving and bid for additional monies to fund growth.

5.2 Performance Management

- 5.2.1 Ongoing performance management is undertaken in a framework that involves Business Area Management teams, the Force Executive team and members.

5.3 Efficient Government

- 5.3.1 All public sector bodies in Scotland are involved with the Scottish Executive's Efficient Government initiative. The initiative is designed to achieve cash and time-releasing savings over a five year period through elimination of waste, bureaucracy and duplication.

- 5.3.2 The Board considers its Efficient Government activities within the budget setting processes. In addition, efficiency gains and changes in service provision have been identified from recent Best Value reviews. The efficiencies have been included in the savings recently reported to the Association of Chief Police Officers in Scotland (ACPOS) and will play a significant role in supporting ACPOS to meet future efficiency savings targets set for the next two years.
- 5.3.3 The actual savings for 2005/2006 and the notional target for the Force for the next two years is detailed as follows:

	Target 2005/2006 £m	Target 2006/2007 £m	Target 2007/2008 £m
Cash Savings	0.36	0.54	0.74
Non Cash Savings	0.89	3.14	4.64
Total Target Savings	1.25	3.68	5.38
Actual/ Projection at			
31 March	2.62	5.53	5.57



5.4 Risk Management

- 5.4.1 The Risk Management Strategy document was approved in 2004/2005. The Board has now completed an extensive review of all risks across each of the Business Area and this has become an integral part of the business planning exercise.

5.5 Statutory Performance Indicators (SPIs)

- 5.5.1 The 2005/2006 return to Audit Scotland for SPIs was made by the 31 July 2006 deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all indicators.
- 5.5.2 In 2004/2005 we issued a separate management report of our audit findings which identified where further enhancements could be made to the process of capturing and publishing the relevant information. Our follow up of the recommendations found that the Board had reacted positively and had taken action to implement all of the recommendations made.

5.6 Best Value Audits

- 5.6.1 The Force has developed a sound approach to the Best Value process and, in the last two years, has developed a systems approach to continuous improvement. This now ensures that frontline staff are involved throughout the review, including collecting the data and making recommendations for improvement. The transparency of the methodology and involvement of frontline staff has resulted in commitment from staff at all levels and Best Value is now viewed in a positive light.

5.7 HM Inspectorate of Constabulary for Scotland (HMIC)

- 5.7.1 An HMIC primary inspection of Grampian Police was undertaken during 2005/2006. We were involved in the joint inspection process reviewing the financial and Best Value aspects of the Force. The HMIC report has been finalised this month and a presentation on the inspection was made by HMIC to the Board meeting on 20 October.
- 5.7.2 The overall conclusion from the inspection was that Grampian Police were found to be efficient and effective, provides a high level of service to the people in the area it serves, that they show commitment, loyalty and a genuine sense of pride at all levels within the Force. Partnerships are established in each of the three local authority areas with a desire to make communities safer. The Force has good structures in place to aid effective leadership, internal communication and accountability.
- 5.7.3 The report identified 16 recommendations arising from the inspection. Some of these recommendations are not restricted to Grampian and are identified as impacting on wider strategies. Certain recommendations are aimed at ACPOS who are best placed to address these nationally.
- 5.7.4 An agreed action plan was formulated to manage and implement the recommendations in the report. The action plan will be followed up in the subsequent first review inspection due during 2007.
- 5.7.5 While the inspection and audit functions tend to be viewed as focussing on identifying areas for improvement there is also a role within the inspection process for identifying areas of good practice. We understand that more instances of good practice have been identified in Grampian's report than any other HMIC report in the last two years.

Appendix I - Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both Members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Board and the Treasurer's responsibilities for the Statement of Accounts are set out on page 6 of the annual statement of accounts. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Board's Statement on the System of Internal Financial Control complies with the requirements of the Code of Practice for Local Authority Accounting in the United Kingdom 2005, a Statement of Recommended Practice (the 2005 SORP) and report any exceptions. We are also required to review the statement and report if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to give an opinion on the effectiveness of the Board's internal financial controls.



Appendix II - Follow-up Action Plan for 2004/2005

Para Ref.	Recommendation	Grade	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
1	<p>Statutory Performance Indicators (SPIs)</p> <p>R1 Procedures should be implemented to ensure that where information has to be published under a statutory requirement, this is done within set deadlines.</p>	A	Agreed. Due to an oversight this was not achieved this year. Steps will be taken to ensure the data is published by the done date in future years.	Agreed	Chief Superintendent Colin Menzies	30 Sept 2006	Resolved
2	<p>R2 The Force should take into account the format of information published on the website to avoid the opportunity for malicious manipulation or amendment of data.</p>	A	Accepted.	Agreed	Head of ICT	Ongoing	Resolved

